

2006





Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

In Fiscal Year (FY) 2006, the Office of the Under Secretary of Defense (Comptroller), with support from the Department of the Navy, designated the U.S. Marine Corps a financial reporting entity. This designation allowed the Marine Corps to prepare comprehensive subsidiary financial statements and related notes beginning in FY 2006.

The Marine Corps shares appropriations with the Department of the Navy and in addition maintains accountability for its own appropriations. The Marine Corps has specific funds and budget execution unto itself that are managed by Marine Corps program sponsors. Given this fiduciary responsibility, the Marine Corps is able to fully comply with Statement of Federal Financial Accounting Concepts Number 2, *Entity and Display*.

Principal Statements

The FY 2006 U.S. Marine Corps General Fund Principal Statements and related notes are subsidiary financial statements and related notes of the Department of the Navy General Fund, and are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the U.S. Marine Corps General Fund for the fiscal year ending September 30, 2006.

The following statements comprise the U.S. Marine Corps General Fund Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The accompanying notes should be considered an integral part of the Principal Statements.

Department of Defense

Marine Corps - Marine Corps GF

CONSOLIDATED BALANCE SHEET

As of September 30, 2006 and 2005

(\$ in thousands)

	2006 Consolidated	2005 Restated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 12,774,224	\$ 8,231,880
Non-entity Seized Iraqi Cash	0	0
Non-entity - Other	118,017	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	37,837	62,428
Other Assets (Note 6)	5,774	11,214
Total Intragovernmental Assets	\$ 12,935,852	\$ 8,305,522
Cash and Other Monetary Assets (Note 7)	59,649	196,180
Accounts Receivable, net (Note 5)	21,282	16,108
Loans Receivable (Note 8)	0	0
Inventory and Related Property, net (Note 9)	5,121,038	470,506
General Property, Plant and Equipment, net (Note 10)	8,497,885	6,965,708
Investments (Note 4)	0	0
Other Assets (Note 6)	519,651	293,375
TOTAL ASSETS	\$ 27,155,357	\$ 16,247,399
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 111,464	\$ 168,814
Debt (Note 13)	0	0
Other Liabilities (Note 15 & Note 16)	243,876	278,663
Total Intragovernmental Liabilities	\$ 355,340	\$ 447,477
Accounts Payable (Note 12)	520,609	505,949
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	214,433	210,850
Environmental and Disposal Liabilities (Note 14)	226,470	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	938,012	676,705
TOTAL LIABILITIES	\$ 2,254,864	\$ 1,840,981
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0	\$ 0
Unexpended Appropriations - Other Funds	12,443,304	7,801,648
Cumulative Results of Operations - Earmarked Funds	383	0
Cumulative Results of Operations - Other Funds	12,456,806	6,604,770
TOTAL NET POSITION	\$ 24,900,493	\$ 14,406,418
TOTAL LIABILITIES AND NET POSITION	\$ 27,155,357	\$ 16,247,399

The accompanying notes are an integral part of these statements.

Department of Defense

Marine Corps - Marine Corps GF

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
Program Costs		
Gross Costs	\$ 20,496,639	\$ 20,160,841
(Less: Earned Revenue)	(414,698)	(1,066,992)
Net Costs	\$ 20,081,941	\$ 19,093,849
Costs Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	<u>\$ 20,081,941</u>	<u>\$ 19,093,849</u>

The accompanying notes are an integral part of these statements.

Department of Defense
Marine Corps - Marine Corps GF

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	<u>Earmarked Funds</u>	<u>Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 240	\$ 7,758,322
Prior period adjustments (+/-)		
Changes in accounting principles (+/-)	0	0
Correction of errors (+/-)	0	3,158,868
Beginning balances, as adjusted	\$ 240	\$ 10,917,190
Budgetary Financing Sources:		
Appropriations received	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	0	21,463,922
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	158	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	90,379
Imputed financing from costs absorbed by others	0	67,241
Other (+/-)	0	0
Total Financing Sources	\$ 158	\$ 21,621,542
Net Cost of Operations (+/-)	15	20,081,926
Net Change	143	1,539,616
Ending Balances	<u>\$ 383</u>	<u>\$ 12,456,806</u>
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 0	\$ 8,857,933
Prior period adjustments (+/-)		
Changes in accounting principles (+/-)	0	0
Correction of errors (+/-)	0	0
Beginning balances, as adjusted	\$ 0	\$ 8,857,933
Budgetary Financing Sources:		
Appropriations received	\$ 0	\$ 25,417,616
Appropriations transferred in/out (+/-)	0	(106,906)
Other adjustments (rescissions, etc) (+/-)	0	(261,417)
Appropriations used	0	(21,463,922)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	\$ 0	\$ 3,585,371
Net Cost of Operations (+/-)	0	0
Net Change	0	3,585,371
Ending Balances	<u>\$ 0</u>	<u>\$ 12,443,304</u>

The accompanying notes are an integral part of the statements.

Department of Defense
Marine Corps - Marine Corps GF

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	2006 Consolidated	2005 Restated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 7,758,562	\$ 3,060,673
Prior period adjustments (+/-)		
Changes in accounting principles (+/-)	0	0
Correction of errors (+/-)	3,158,868	3,158,867
Beginning balances, as adjusted	\$ 10,917,430	\$ 6,219,540
Budgetary Financing Sources:		
Appropriations received	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	21,463,922	19,415,135
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	158	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	90,379	21
Imputed financing from costs absorbed by others	67,241	63,923
Other (+/-)	0	0
Total Financing Sources	\$ 21,621,700	\$ 19,479,079
Net Cost of Operations (+/-)	20,081,941	19,093,849
Net Change	1,539,759	385,230
Ending Balances	\$ 12,457,189	\$ 6,604,770
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 8,857,933	\$ 6,534,483
Prior period adjustments (+/-)		
Changes in accounting principles (+/-)	0	0
Correction of errors (+/-)	0	0
Beginning balances, as adjusted	\$ 8,857,933	\$ 6,534,483
Budgetary Financing Sources:		
Appropriations received	\$ 25,417,616	\$ 21,089,769
Appropriations transferred in/out (+/-)	(106,906)	(244,582)
Other adjustments (rescissions, etc) (+/-)	(261,417)	(162,886)
Appropriations used	(21,463,922)	(19,415,135)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	\$ 3,585,371	\$ 1,267,166
Net Cost of Operations (+/-)	0	0
Net Change	3,585,371	1,267,166
Ending Balances	\$ 12,443,304	\$ 7,801,649

The accompanying notes are an integral part of the statements.

Department of Defense

Marine Corps - Marine Corps GF

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	\$ 2,111,332	\$ 2,460,325
Recoveries of prior year unpaid obligations	1,569,189	4,770,516
Budget Authority:		
Appropriations received	25,417,774	21,089,769
Borrowing authority	0	0
Contract authority	0	0
Spending authority from offsetting collections:		
Earned		
Collected	580,388	2,106,013
Change in receivables from Federal sources	(61,287)	18,751
Change in unfilled customer orders		
Advances received	0	0
Without advance from Federal sources	(47,838)	70,421
Anticipated for rest of year, without advances	0	0
Previously unavailable	0	0
Expenditure Transfers from trust funds	0	0
Subtotal	\$ 25,889,037	\$ 23,284,954
Nonexpenditure Transfers, net, anticipated and actual	(106,906)	(244,582)
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(261,418)	(162,886)
Total Budgetary Resources	\$ 29,201,234	\$ 30,108,327
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$ 25,801,864	\$ 25,721,916
Reimbursable	817,242	2,371,654
Subtotal	\$ 26,619,106	\$ 28,093,570
Unobligated balance:		
Apportioned	\$ 2,298,754	\$ 1,816,603
Exempt from apportionment	0	0
Subtotal	2,298,754	1,816,603
Unobligated balances not available	283,374	198,154
Total status of budgetary resources	\$ 29,201,234	\$ 30,108,327

The accompanying notes are an integral part of these statements.

Department of Defense

Marine Corps - Marine Corps GF

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	2006 Combined	2005 Combined
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 7,499,117	\$ 4,594,921
Less: Uncollected customer payments from	(316,775)	(227,791)
Federal sources, brought forward, October 1		
Total unpaid obligated balance	7,182,342	4,367,130
Obligations incurred, net (+/-)	\$ 26,619,106	\$ 28,093,570
Less: Gross outlays	(22,130,495)	(21,383,890)
Obligated balance transferred, net		
Actual transfers, unpaid obligations (+/-)	0	0
Actual transfers, uncollected customer	0	0
payments from Federal sources (+/-)		
Total Unpaid obligated balance transferred, net	0	0
Less: Recoveries of prior year unpaid obligations, actual	(1,569,189)	(4,770,516)
Change in uncollected customer	109,126	(89,171)
payments from Federal sources (+/-)		
Obligated balance, net, end of period		
Unpaid obligations	10,418,539	6,534,084
Less: Uncollected customer payments from	(207,650)	(316,962)
Federal sources		
Total Unpaid obligated balance, net, end of period	10,210,889	6,217,122
Net Outlays:		
Net Outlays:		
Gross Outlays	22,130,495	21,383,890
Less: Offsetting collections	(580,388)	(2,106,014)
Less: Distributed Offsetting receipts	3,296	0
Net Outlays	\$ 21,553,403	\$ 19,277,876

The accompanying notes are an integral part of these statements.

Department of Defense
Marine Corps - Marine Corps GF

CONSOLIDATED STATEMENT OF FINANCING

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 26,619,106	\$ 28,093,570
Less: Spending authority from offsetting collections and recoveries (-)	(2,040,452)	(6,965,701)
Obligations net of offsetting collections and recoveries	24,578,654	21,127,869
Less: Offsetting receipts (-)	3,296	0
Net obligations	24,581,950	21,127,869
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	90,379	21
Imputed financing from costs absorbed by others	67,241	63,923
Other (+/-)	0	0
Net other resources used to finance activities	157,620	63,944
Total resources used to finance activities	\$ 24,739,570	\$ 21,191,813
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits benefits ordered but not yet provided		
Undelivered orders (-)	\$ (3,066,878)	\$ (1,783,153)
Unfilled Customer Orders	(47,838)	70,421
Resources that fund expenses recognized in prior periods	(27)	(14,138)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	(3,296)	0
Resources that finance the acquisition of assets	(2,875,425)	0
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Less: Trust or Special Fund Receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	(90,379)	(21)
Total resources used to finance items not part of the Net Cost of Operations	\$ (6,083,843)	\$ (1,726,891)
Total resources used to finance the Net Cost of Operations	\$ 18,655,727	\$ 19,464,922

The accompanying notes are an integral part of these statements.

Department of Defense

Marine Corps - Marine Corps GF

CONSOLIDATED STATEMENT OF FINANCING

For the Years Ended September 30, 2006 and 2005

(\$ in thousands)

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	\$ 0	\$ 0
Increase in environmental and disposal liability	226,470	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the public (-)	0	0
Other (+/-)	106,134	21,458
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ 332,604	\$ 21,458
Components not Requiring or Generating Resources:		
Depreciation and amortization	\$ 1,458,802	\$ 184,822
Revaluation of assets and liabilities (+/-)	(25,176)	(578,725)
Other (+/-)		
Trust Fund Exchange Revenue	0	0
Cost of Goods Sold	0	0
Operating Material & Supplies Used	(338,188)	7,483
Other	(1,828)	(6,111)
Total components of Net Cost of Operations that will not require or generate resources	\$ 1,093,610	\$ (392,531)
Total components of Net Cost of Operations that will not require or generate resources in the current period	\$ 1,426,214	\$ (371,073)
Net Cost of Operations	<u>\$ 20,081,941</u>	<u>\$ 19,093,849</u>

The accompanying notes are an integral part of these statements.



Note 1. Significant Accounting Policies

1.A. Basis of Presentation

The United States Marine Corps (USMC), a component of the Department of the Navy (DON), prepared these financial statements to report the financial position and results of operations, as required by the “Chief Financial Officers (CFO) Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. First Quarter, Fiscal Year 2006 was the first time USMC produced General Fund financial statements as a stand alone entity. Though reporting as a stand alone entity, USMC financial statements are a subsidiary of DON financial statements and reporting process. The financial statements have been prepared from the books and records of USMC in accordance with the “Department of Defense (DoD) Financial Management Regulation,” the Office of Management and Budget (OMB) Circular No. A 136, “Financial Reporting Requirements,” and to the extent possible, Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which USMC is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable. In addition to the financial statements, and pursuant to OMB directives, USMC also prepares financial reports that are used to monitor and control the use of budgetary resources.

The USMC is unable to fully implement all elements of GAAP and OMB Circular No. A-136, due to limitations of its financial management processes and systems and nonfinancial systems and processes that feed into the financial statements. The USMC derives its reported values and information for major asset and liability categories, largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The USMC continues to implement process and system improvements addressing the limitations, many of which are detailed below. As a first time financial statements preparer, USMC has no auditor identified financial statements material weaknesses, other than as part of DON financial statements. The DoD currently has 11 auditor identified financial statement weaknesses: (1) Financial Management Systems, (2) Intragovernmental Eliminations, (3) Accounting Entries, (4) Fund Balance with Treasury, (5) Environmental Liabilities, (6) General Property, Plant and Equipment, (7) Government Property and Material in Possession of Contractors, (8) Inventory, (9) Operating Materials and Supplies, (10) Statement of Net Cost, and (11) Statement of Financing.

1.B. Mission of the Reporting Entity

The USMC was created on November 10, 1775 by an act of the 2nd Continental Congress. The overall mission of USMC is to provide trained and equipped forces to Combatant Commanders in support of the President’s National Security Strategy. As set forth in the National Security Act of 1947, USMC missions are: to seize and defend advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign; to provide detachments and organizations for service in armed vessels of the U.S. Navy or for protection of naval property on naval stations and bases; to develop, with the other Armed Forces, the tactics, techniques, and equipment employed by landing forces in amphibious operations; to train and equip, as required, Marine forces for airborne operations; to develop, with the other Armed Forces, doctrine, procedures, and equipment of interest to USMC for airborne operations which are not provided for by the U.S. Army; and to be able to expand from a peacetime posture to meet the needs of war in accordance with mobilization plans.

1.C. Appropriations and Funds

The USMC receives appropriations and funds as general, special (earmarked), and deposit funds. These appropriations and funds may be either provided solely to USMC or shared with the U.S. Navy. The USMC uses these appropriations and funds to execute their missions and report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including military personnel, operation and maintenance, research and development, and procurement.

Special fund accounts are used to record government receipts reserved for a specific purpose.

Certain special and trust funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

Deposit funds generally are used to record amounts held temporarily until paid to the appropriate government or public entity. The USMC is acting as an agent or a custodian for funds awaiting distribution, for example payroll taxes.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

Entity Accounts:

General Accounts

17 0703	Family Housing, Navy and Marine Corps
17 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1319	Research and Development, Test and Evaluation, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps

Special Funds

17X5095	Wildlife Conservation
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Non-Entity Accounts:

Deposit Funds

17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds

1. D. Basis of Accounting

The USMC operates a single general fund accounting system – the Standard Accounting, Budgeting, and Reporting System (SABRS). Through this system USMC records the majority of the financial transactions reflected in these financial statements. The SABRS is a transaction driven general ledger accounting system that utilizes standardized transactions for processing. General ledger postings are derived from centralized posting logic maintained in a table within the accounting system and applied against detail transactions. The posting logic in this table is maintained in accordance with all applicable guidance and attempts to meet the standards of GAAP. Both budgetary and proprietary general ledgers are maintained and utilized for reporting. Transactions are either entered manually into the accounting system or generated via interfaces with financial feeder systems.

For FY 2006, USMC's financial management systems are unable to meet all requirements for full accrual accounting. Many of USMC's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of USMC's legacy systems were designed to record information on a budgetary basis. The USMC has undertaken efforts to determine the actions required to bring financial and nonfinancial feeder systems and processes into compliance with all elements of GAAP. The USMC accounting system, SABRS is US Standard General Ledger (USSGL) and Standard Financial Information Structure (Phase 1) compliant.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the USSGL. Until all of USMC's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, USMC's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, DoD identifies program costs based upon major appropriation groups provided by Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government and Performance and Results Act. The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1. E. Revenues and Other Financing Sources

The USMC receives congressional appropriations as financing sources for general funds on either an annual or a multiyear basis. When authorized by legislation, revenues generated by sales of goods or services supplement these appropriations. The USMC recognizes revenue as a result of costs incurred or services provided to Federal agencies and the public. Full cost pricing is USMC's standard policy for services provided as required by OMB Circular A 25, "User Charges." The USMC recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

The USMC does not include nonmonetary support provided by U.S. allies for common defense and mutual security in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because USMC financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The USMC's expenditures for capital and other long term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate toward consumption method for recognizing OM&S expenses. Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, USMC cannot accurately identify most of its intragovernmental transactions by customer because USMC's systems do not track buyer and seller data needed to match related transactions. Seller entities within DoD provided summary seller side balances for revenue, accounts receivable, and unearned revenue to the buyer side internal DoD accounting offices. In most cases, the buyer side records are adjusted to agree with DoD seller side balances. IntraDoD intragovernmental balances are then eliminated. The USMC properly eliminates the revenue results from intraDoD sales of capitalized assets. The DoD is developing long term system improvements that will include sufficient up front edits and controls to eliminate the need for after the fact reconciliations. The volume of intragovernmental transactions is so large that after the fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The USMC, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to USMC as though the agency was a stand alone entity.

The USMC civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The USMC funds a portion of the civilian and military pensions. Reporting civilian pension liabilities under CSRS and FERS is the responsibility of the Office of Personnel Management (OPM). The USMC recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits that was funded by OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within USMC must be eliminated. However, USMC, as well as the majority of the federal government, cannot consistently and accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of USMC. Since FY 1999, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. IntraDoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Services (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide," provide guidance for reporting and reconciling intragovernmental transactions balances. While USMC is unable to fully reconcile intragovernmental transactions with all federal partners, USMC is able to reconcile balances pertaining to investments in federal securities, borrowing from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with Department of Labor (DOL) and benefit program transactions with OPM. The DoD's proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not

been capitalized since the Department of Treasury does not allocate such interest costs to the benefiting agencies.

1. H. Transactions with Foreign Governments and International Organizations

Each year, USMC sells defense articles and services to foreign governments and international organizations, under the provisions of the “Arms Export Control Act of 1976.” Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers are required to make payment in advance.

1. I. Funds with the U.S. Treasury

The USMC’s monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Services, the U.S. Army Corps of Engineers (USACE) and the Department of State’s financial service centers process the majority of USMC’s cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between USMC/DON’s recorded balance in the FBWT accounts and Treasury’s FBWT accounts sometimes result and are subsequently reconciled.

1. J. Foreign Currency

Cash is the total of cash resources under the control of DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposits in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. The majority of cash and all foreign currency is classified as nonentity and, therefore, is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

The USMC conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (Operations and Maintenance, Military Personnel, Military Construction, Family Housing Operations and Maintenance, and Family Housing Construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. For those accounts, USMC does not separately identify currency fluctuations.

1. K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101).

The USMC bases the estimate of uncollectible accounts receivable from the public on extensive analysis of historical Treasury Report on Receivables data. Undistributed collections are initially allocated to

federal accounts receivable as that greater than 93% of all reimbursable receivables are federal. In an undistributed state, it is impossible to determine an appropriate breakdown for the collections. Due to the relatively small value of undistributed collections, the financial statements are still materially accurate.

1. L. Loans Receivable

Not applicable.

1. M. Inventories and Related Property

Most of USMC's inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The USMC uses the latest acquisition cost method as its inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104 208). By utilizing new systems development processes, USMC plans to transition its inventory to the moving average cost method. The USMC's inventory value is now being reported from systems that have not transitioned to moving average cost functionality.

The SFFAS No. 3 distinguishes between "inventory held for sale" and "inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, USMC manages only military or government specific materiel under normal conditions. Items commonly used in and available from the commercial sector are not managed in USMC materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The USMC holds materiel based on military need and support for contingencies. Therefore, DoD does not attempt to account separately for "inventory held for sale" and "inventory held in reserve for future sale" based on SFFAS No. 3 definitions.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance sheet as OM&S. When current systems cannot fully support the consumption method, USMC uses the purchase method. Under this method materiel and supplies are expensed when purchased. During FY 2006, USMC expensed significant amounts using the purchase method either because the systems could not support the consumption method or because management deemed that the item is in the hands of the end user. The USMC determined that the recurring high value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high dollar items, (e.g. engines) are categorized as OM&S rather than military equipment.

The DoD implemented new policy in FY 2002 to account for condemned materiel (only) as "Excess, Obsolete, and Unserviceable." The USMC recognizes condemned material as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned material is zero. Potentially redistributed material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in the "Held for Use" or "Held for Repair" categories according to its condition.

1. N. Investment and U.S. Treasury Securities

Not Applicable.

1. O. General Property, Plant and Equipment

The DoD is moving away from a standard capitalization threshold for all categories (e.g., real property, military equipment, etc.) of General PP&E to one that is specific for each individual category. The DoD revised the capitalization threshold from \$100,000 to \$20,000 for real property. The current \$100,000 capitalization threshold remains unchanged for the remaining General PP&E categories. Although, DoD revised the capitalization threshold from \$100,000 to \$20,000 for real property, USMC capitalization threshold for real property currently remains \$100,000. General PP&E, exclusive of military equipment, is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds DoD capitalization threshold. The DoD also requires capitalization of improvement costs over DoD capitalization threshold for General PP&E. The DoD depreciates all General P&E, other than land, on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimate useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off in the FY 1998.

When it is in the best interest of the government, USMC provides government property to contractors to complete contracted work. The USMC either owns or leases such property, or the contractor purchases it for the government based on the contract terms. When the value of contractor procured General PP&E exceeds DoD capitalization threshold, it must be reported on USMC's Balance Sheet. The DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, USMC currently reports only government property in the possession of contractors that is maintained in USMC's property systems. DoD has issued new property accountability and reporting requirements that require USMC components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established Generally Accepted Accounting Principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The Standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The DoD used Bureau of Economic Analysis (BEA) to calculate the value of the military equipment for reporting periods from October 1, 2002 through March 31, 2006.

Effective with 3rd Quarter, FY 2006, DoD replaced the BEA estimation methodology with an estimation methodology for military equipment based on DoD internal records. The DoD initially identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure information, and information related to acquisition and disposals.

1. P. Advances and Prepayments

The USMC records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The USMC recognizes advances and prepayments as expenses when the related goods and services are received.

1. Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of

property (a capital lease), USMC should record the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The USMC deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. The USMC as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by USMC in support of contingency operations are the largest component operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The USMC expects to continue to reduce the level of owned assets while increasing the number of leased assets. The USMC will strive to displace commercial leases with more economical GSA leases.

1. R. Other Assets

The USMC conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. To alleviate the potential financial burden on the contractor that long-term contracts can cause, USMC provides financing payments. The USMC does not make financing payments for real property construction; USMC construction projects are managed by U.S. Navy and reported in the DON Balance Sheet and in the related notes.

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments, that are not reported elsewhere on DoD's Balance Sheet.

Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair.

In addition, based on FAR, USMC makes financing payments under fixed price contracts that are not based on a percentage of completion. The USMC reports these financing payments as "Other Assets." The USMC treats these payments as advances or prepayment because USMC becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, USMC is not obligated to reimburse the contractor for its costs and the contractor is liable to repay USMC for the full amount of the advance.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by the SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The USMC/DON recognizes a liability when a past event or exchange transaction has occurred, a future loss

is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The USMC/DON loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes. The USMC contingent liabilities related to legal claims are reported at DON entity level.

Other liabilities arise as a result of anticipated disposal costs for USMC's assets. This type of liability has two components—nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based upon the policies and consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD recognizes nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with, and are not easily identifiable separately from, environmental disposal costs.

1. T. *Accrued Leave*

The USMC reports as liabilities military leave and civilian earned leave, except sick leave that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

1. U. *Net Position*

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not yet been incurred. Cumulative results of operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also included donations and transfer in and out of assets without reimbursement.

1. V. *Treaties for Use of Foreign Bases*

The USMC has the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The USMC purchases capital assets overseas with appropriated funds; however, the host country retains the title to land and improvements. Generally, treaty terms allow USMC continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases prohibited, losses are recorded for the value of any nonretrievable capital assets. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid for such capital investments.

1. W. *Comparative Data*

Financial statement fluctuations greater than two percent of the total assets on the Balance Sheet or ten percent from the previous period presented are explained within the notes to the financial statements.

It should be noted that when using these financial statements and notes, the prior year FY 2005 comparative column in some cases may not allow for an accurate comparison because the shared appropriations were not included. First Quarter, FY 2006 was the first time USMC produced General Fund financial statements as a stand-alone entity. Though reporting as a stand alone entity, USMC

General Fund financial statements are a subsidiary of DON financial statements and reporting process. The USMC General Fund financial statements include those appropriations specifically designated as USMC and the applicable portion of those DON level appropriations where USMC and Navy receive allocations for program execution, referred to as shared appropriations (i.e., Family Housing Operation and Maintenance, Navy and Marine Corps; Procurement of Ammunition, Navy and Marine Corps; and Research and Development, Test and Evaluation, Navy). Prior to FY 2006, shared appropriations were only reported on DON level statements.

1. X. *Unexpended Obligations*

The USMC obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

1. Y. *Undistributed Disbursements and Collections*

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In transit payments are those payments that have been made to other agencies or entities that have not been recorded in the accounting records. These payments are applied to the entities' outstanding accounts payable balance. In transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The USMC follows this procedure.

1. Z. *Data Collection Approach*

The USMC financial statements include information from both financial systems and feeder systems. The DFAS collects the financial information and incorporates it into the financial statements. The USMC, in coordination with DON, collects financial information from feeder systems through a data call process and submits it to DFAS for incorporation into the financial statements. The USMC utilizes a DON web-based data collection instrument and the Defense Departmental Reporting System-Data Collection Module to collect required financial information from feeder systems. The USMC identifies the information requirements to the source provider, provides an audit trail, and integrates these steps into the financial statement preparation process.

Note 2. Nonentity Assets

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 118,017	\$ 0
B. Accounts Receivable	0	0
C. Total Intragovernmental Assets	\$ 118,017	\$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 59,649	\$ 196,180
B. Accounts Receivable	199	152
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 59,848	\$ 196,332
3. Total Nonentity Assets	\$ 177,865	\$ 196,332
4. Total Entity Assets	\$ 26,977,492	\$ 16,051,067
5. Total Assets	\$ 27,155,357	\$ 16,247,399

Fluctuation and Abnormalities

There are no abnormalities to disclose and no variances equal to or greater than ten percent and or two percent of total assets to explain for this reporting period.

Other Information

The Nonentity Fund Balance with Treasury represents amounts in the United States Marine Corps (USMC) deposit fund accounts. The deposit fund accounts contain various withholdings from Marines' pay such as taxes, allotments, and garnishments held until the appropriate disbursement date. The USMC maintains stewardship accountability and reporting responsibility for these assets, but the assets are not available for use in operations.

Nonentity cash and other monetary assets represent disbursing officers' cash and foreign currency as reported on the Statement of Accountability. These assets are held by USMC disbursing officers, as agents of the United States Treasury, and are not available for use in USMC's operations.

The nonentity nonfederal accounts receivable represents interest, fines and penalties receivable on aged debt. Once collected, nonentity receivables go to the Department of Treasury as miscellaneous receipts.

Note 3. Fund Balance with Treasury

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Fund Balances		
A. Appropriated Funds	\$ 12,773,794	\$ 8,231,880
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Special Funds	430	0
E. Other Fund Types	118,017	0
F. Total Fund Balances	<u>\$ 12,892,241</u>	<u>\$ 8,231,880</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 11,573,192	\$ 8,339,576
B. Fund Balance per (United States Marine Corps (USMC))	12,892,241	8,231,880
3. Reconciling Amount	<u>\$ (1,319,049)</u>	<u>\$ 107,696</u>

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Entity fund balance with treasury increased \$4.5 billion, 55%. The inclusion of the United States Marine Corps (USMC) portion of Department of Navy (DON) appropriations caused an increase of \$1.4 billion. Prior to FY 2006, these appropriations were reported only on DON level statements. The remaining increase is attributable to an increase in appropriated funds in FY 2006 for the Global War on Terror (GWOT). This increase in funding was to acquire enhanced weapons, armored vehicles, and protective gear for fighting the GWOT.

Nonentity fund balance with treasury increased \$118.0 million due to USMC portion of nonentity treasury deposit accounts being reported only on DON level statements prior to 1st Quarter, FY 2006. The majority of this amount is the Pay of the Marine Corps Deposit Fund. This fund is comprised of such items as taxes withheld, payroll savings allotments, and garnishments prior to disbursement to the designated recipient.

Explanation of Reconciliation Amount:

(In thousands)

Shared Appropriations per USMC*	\$1,419,282
Suspense and Deposit Accounts per USMC**	(19,152)
Canceling Year Appropriations***	(81,080)
Total Reconciling Amount	<u>\$1,319,050</u>

*This amount is the fund balance with treasury for USMC portion of appropriations shared with DON: Research and Development, Test and Evaluation; Procurement of Ammunition; Wildlife Conservation on

Military Reservations, Navy; and Family Housing Operation and Maintenance, Navy and Marine Corps. The Department of Treasury does not separately identify USMC portion of fund balance with treasury for the shared appropriations.

**This amount is the Fund Balance with Treasury for suspense and deposit accounts shared with DON: Disbursing Officer Suspense Account; Lost or Cancelled Treasury Checks Suspense Account; Interfund/ Intergovernmental Payment and Collection (IPAC) Suspense Account; and Small Escrow Amounts Deposit Account. The Department of Treasury does not separately identify the USMC portion of fund balance with treasury for the shared suspense and deposit accounts.

***This amount is the total of fund balance with treasury of the appropriations that are canceling in FY 2006. This amount is not included in the final reports per applicable guidance.

Status of Fund Balance with Treasury

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Unobligated Balance		
A. Available	\$ 2,298,754	\$ 1,816,603
B. Unavailable	283,374	198,154
2. Obligated Balance not yet Disbursed	\$ 10,418,539	\$ 6,534,084
3. Nonbudgetary FBWT	\$ 99,224	\$ 0
4. NonFBWT Budgetary Accounts	\$ (207,650)	\$ (316,961)
5. Total	\$ 12,892,241	\$ 8,231,880

Fluctuations and Abnormalities

There are no abnormalities to disclose for this reporting period.

Total Status of Fund Balance with Treasury increased \$4.7 billion, 57% from 4th Quarter, FY 2005 to 4th Quarter, FY2006. This is primarily attributable to the increase in Obligated Balance not yet Disbursed due to the following:

1. \$1.3 billion increase for addition of the USMC portion of appropriations shared with DON. Prior to FY 2006, shared appropriations were reported only on DON level statements.
2. \$1.8 billion increase in obligated balances not disbursed is a direct reflection of the increase in funding for Procurement, Marine Corps appropriation in FY 2006 in support of the GWOT.
3. \$207.6 million increase due to the required removal of unfilled customer orders without advance and reimbursements and other income earned receivable from this line item. These amounts previously reduced the total of this line.

Other Information

The Status of Fund Balance with Treasury consists of unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future obligations. In addition, the status includes various accounts that affect either budgetary reporting or fund balance with treasury, but not both.

Unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

Obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed.

Non-Budgetary Fund Balance with Treasury (FBWT) includes entity and nonentity FBWT accounts, which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non-FBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, and investment accounts. This category reduces the Status of Fund Balance with Treasury.

Unobligated Balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The USMC has no restrictions on unavailable balances at this time.

Disclosures Related to Suspense/Budget Clearing Accounts

As of September 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
<i>(Amounts in thousands)</i>				
Account				
F3845 – Personal Property Proceeds	\$ 0	\$ 0	\$ 0	\$ 0
F3875 – Disbursing Officer Suspense	0	(15,167)	(18,771)	(3,604)
F3880 – Lost or Cancelled Treasury Checks	0	(43)	(32)	11
F3882 – Uniformed Services Thrift Savings Plan Suspense	0	0	0	0
F3885 – Interfund/IPAC Suspense	0	(287)	9	296
F3886 – Thrift Savings Plan Suspense	0	0	0	0
Total	\$ 0	\$ (15,497)	\$ (18,794)	\$ (3,297)

Fluctuations and/or Abnormalities

The Suspense and Clearing account balance increased \$3.2 million, 17%, primarily due to the increase in the Disbursing Officers Suspense account related to the revenues of two unfunded reimbursable programs operating at USMC bases. Both the unfunded reimbursable forestry and unfunded recyclable materials programs posted increases in revenue. The increases in the forestry and recyclable materials programs occurred incrementally over the past fiscal year with revenues (collections) exceeding expenditures (disbursements) in the current fiscal year.

Other Information

The F3875 suspense clearing represents the Disbursing Officer's (DO) suspense. Account F3885, represents the Interfund/IPAC suspense. These suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense account represents the balance of treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of September 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
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(Amounts in thousands)

1. Total Problem

Disbursements, Absolute Value

A. Unmatched

Disbursements (UMDs)	\$	0	\$	36,589	\$	34,640	\$	(1,949)
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B. Negative Unliquidated

Obligations (NULO)		0		5,633		2,905		(2,728)
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2. Total In-transit

Disbursements, Net	\$	0	\$	443,285	\$	310,005	\$	(133,280)
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Fluctuations and Abnormalities

Negative Unliquidated Obligations (NULO) decreased \$2.7 million, 48%, primarily due to correction of standard document number differences between public vendor contracts in the vendor pay system and the accounting system. Beginning 1st Quarter, FY 2006, we are correcting these differences prior to processing transactions. This results in a reduction of transactions posting to incorrect standard document numbers and creating NULOs in the accounting system.

In-transit disbursements decreased \$133.3 million, 30%, primarily due to the processing of detail transactions into the accounting system through September 30, 2006. In 4th Quarter, FY 2005 daily input of transactions into SABRS was stopped on September 28, 2005. This additional interface of transactions into the accounting system significantly reduced the overall in-transit disbursements.

Other Information

An UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

A NULO occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The In-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

The problem disbursement and in-transit disbursement metrics furnished to DFAS Arlington included Treasury Index 97 appropriations that will not be reported on USMC financial statements. Amounts will be reported on the appropriate Treasury Index 97 financial statements.

Note 4. Investments and Related Interest

The Marine Corps General Fund does not have investments and related interest.

Note 5. Accounts Receivable

As of September 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<i>(Amounts in thousands)</i>				
1. Intragovernmental Receivables	\$ 37,837	N/A	\$ 37,837	\$ 62,428
2. Nonfederal Receivables (From the Public)	\$ 22,168	\$ (886)	\$ 21,282	\$ 16,108
3. Total Accounts Receivable	\$ 60,005	\$ (886)	\$ 59,119	\$ 78,536

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

The United States Marine Corps (USMC) reported a decrease of \$24.6 million, 39%, in intragovernmental receivables. Of the decrease, \$14.6 million is the result of a collection received in 1st Quarter, FY 2006. The collection offset a receivable established in 4th Quarter, FY 2005 for the sale of vehicles through the Foreign Military Sales (FMS) program. Additional decreases are primarily the result of concentrated efforts to process bills and collections in a timely manner. These improvements included a reduction of \$21.7 million reported from the Army General Fund and \$8.7 million from the Navy Working Capital Fund, which occurred incrementally throughout the past fiscal year. These decreases were offset by an increase of \$18.7 million in USMC to USMC elimination entries during 4th Quarter, FY 2005 as a result of

incorrect coding of intragovernmental receivables. The incorrect coding was corrected as of 2nd Quarter, FY 2006.

Nonfederal accounts receivable increased \$5.2 million, 32%. An increase of approximately \$2.5 million is a direct result of the privatization of family housing at USMC installations which originated during 1st Quarter, FY 2006. An additional \$2.0 million is attributable to an increase in unbilled revenues. The increase was a result of fluctuations in the billing cycle at the end of 4th Quarter, FY 2006.

Other Information

Allocation of Undistributed Collections.

Undistributed collections are allocated to federal accounts receivable based on management determination and the fact that historically, greater than 93% of all reimbursable receivables are federal. In an undistributed state, it is impossible to determine an appropriate breakdown for the collections. This approach does not materially impact statement accuracy. For 4th Quarter, FY 2006, \$2.1 million in supported undistributed collections was allocated to federal accounts receivable.

Trading Partners Adjustments.

Intrafund transactions are eliminated based upon trading partner information obtained from the Standard Accounting, Budgeting, and Reporting System (SABRS). The Reimbursable Module of SABRS captures the data necessary to perform these eliminations. That data includes seller appropriation, grantor (buyer) appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue, unearned revenue, and amount collected. However, other Department of Defense (DoD) accounting systems do not consistently capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, USMC was unable to reconcile intragovernmental accounts receivable balances with its trading partners. Through the Business Transformation Agency, DoD intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations.

Trading Partner Process

The USMC records adjustments to bring intragovernmental accounts receivable into agreement with the intragovernmental accounts payable of those trading partners that have obtained a waiver. This is in accordance with the DoD Financial Management Regulation, Volume 6B, Chapter 13.

Aged Accounts Receivable

As of September 30	2006		2005	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<i>(Amounts in thousands)</i>				
CATEGORY				
Nondelinquent				
Current	\$ 46,286	\$ 12,684	\$ 149,884	\$ 4,522
Noncurrent	0	0	0	0
Delinquent				
1 to 30 days	\$ 743	\$ 2,034	\$ 0	\$ 0
31 to 60 days	8	537	0	0
61 to 90 days	135	1,659	20,673	1,153
91 to 180 days	85	1,574	445	3,085
181 days to 1 year	22	2,096	4,117	1,436
Greater than 1 year and less than or equal to 2 years	35	798	401	846
Greater than 2 years and less than or equal to 6 years	0	691	(0)	475
Greater than 6 years and less than or equal to 10 years	0	59	0	110
Greater than 10 years	0	36	0	55
Subtotal	\$ 47,314	\$ 22,168	\$ 175,520	\$ 11,682
Less Supported Undistributed Collections	(2,130)	0	(89,221)	0
Less Eliminations	(7,347)	0	(47,420)	0
Less Other	0	0	23,549	5,477
Total	\$ 37,837	\$ 22,168	\$ 62,428	\$ 17,159

Information Related to Aged Accounts Receivable

The USMC currently has no nondelinquent accounts receivable over 30 days old.

Approximately \$4.5 million of the total delinquent balance is a result of outstanding receivables in the USMC reimbursable program. Unbilled revenues account for \$2 million and will be billed in the 1st Quarter, FY 2007 of the remaining balance, \$1.4 million has been submitted for write-off with anticipation that the remaining \$1.1 million will be submitted for write-off during the 1st Quarter, FY 2007.

Approximately \$6 million of the current balance is a result of refund receivables and is being managed by the Debt Management Offices (DMO) in Columbus and Denver. The DMOs have referred \$5.1 million to the U.S. Treasury for collection and are working the remaining amounts for off-set or due process.

The "Less Other" amount reported in the FY 2005 column is an adjustment to bring the Balance Sheet amounts into agreement with the aged receivables as reported on the Monthly Receivables Report. As of 2nd Quarter, FY 2006, amounts are reconciled prior to reporting.

Note 6. Other Assets

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 5,774	\$ 11,214
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 5,774	\$ 11,214
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 505,172	\$ 274,754
B. Other Assets (With the Public)	14,479	18,621
C. Total Nonfederal Other Assets	\$ 519,651	\$ 293,375
3. Total Other Assets	\$ 525,425	\$ 304,589

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Intragovernmental other assets decreased \$5.4 million, 49%, primarily due to a decrease in advances paid to the Defense Information Systems Agency (DISA). In 4th Quarter, FY 2005, the United States Marine Corps (USMC) paid DISA \$9.8 million in advances for services requested from the Information Processing Center. During the 1st Quarter, FY 2006, DISA delivered a significant portion of services requested decreasing the amount of the advance reported by \$4.1 million.

Nonfederal other assets increased \$226.3 million, (77%). This is partially attributable to a \$101.0 million increase in outstanding contract financing payments in the Procurement, Marine Corps appropriation. This increase is due to increased procurement funding to acquire enhanced weapons, armored vehicles, and protective gear for the Global War on Terror. The majority funding was received during 1st Quarter and 3rd Quarter, FY 2006, for the amounts, \$98.2 million and \$127.2 million, respectively. The remaining increase in nonfederal other assets is attributable to the first time recording of an estimated value of future outstanding contract payments that will be paid to the contractor upon delivery and government acceptance of a satisfactory product. As a result of the implementation of new Department of Defense (DoD) procedures in 4th Quarter, FY 2006, USMC recorded \$108.8 million in estimated assets for unpaid future outstanding contract payments.

Other Information

Other assets (with the public) is composed of travel advances made to Marines and civilian personnel.

Contract terms and conditions for certain types of contract financing payments convey certain rights to DoD that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the government. The government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and DoD is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of \$505.2 million is comprised of \$396.4 million in contract

financing payments and an additional \$108.8 million in estimated future funded payments that will be paid to the contractor upon future delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7. Cash and Other Monetary Assets

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Cash	\$ 59,639	\$ 93,077
2. Foreign Currency	10	103,103
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 59,649	\$ 196,180

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Cash and other monetary assets decreased by \$136.5 million, 70%. This is primarily attributable to a \$103.1 million decrease in foreign currency held in the Marine Corps Expeditionary Forces, Camp Lejeune, Limited Depositary Account (LDA) for use in Iraq. The decrease in foreign currency is due to an increase in expenditures for contract payments and service member pay support during deployment in Iraq. Upon completion of the disbursing officer's deployment that LDA was closed, the remaining amounts were withdrawn and subsequently deposited back into the U.S. Treasury during 2nd Quarter, FY 2006.

Other Disclosures

Cash and foreign currency are nonentity assets and, as such, are considered restricted assets that are held by the United States Marine Corps (USMC) but not available to use in its operations. Cash of \$59.6 million and foreign currency of \$10.0 thousand are restricted. These assets are held by USMC disbursing officers as agents of the Treasury.

The amounts reported as cash and foreign currency consist primarily of cash held by disbursing officers to carry out their payment, collection, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Statement of Accountability, a Department of Defense disbursing officer's report.

The amount of foreign currency reported was valued using the Department of the Treasury's prevailing rate of exchange, the most favorable rate available to the U.S. Government when acquiring foreign currency. Foreign currency is used to make official disbursements and to provide foreign currency for the exchange of U.S. dollars for military personnel.

Note 8. Direct Loan and/or Loan Guarantee Programs

The Marine Corps General Fund does not have Direct Loan and/or Loan Guarantee Programs.

Note 9. Inventory and Related Property

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	5,121,038	470,506
3. Stockpile Materials, Net	0	0
4. Total	\$ 5,121,038	\$ 470,506

Inventory, Net

Not applicable.

Operating Materials and Supplies, Net

As of September 30	2006			2005	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
<i>(Amounts in thousands)</i>					
1. OM&S Categories					
A. Held for Use	\$ 4,553,141	\$ 0	\$ 4,553,141	\$ 412,926	SP, LAC
B. Held for Repair	567,897	0	567,897	57,580	SP, LAC
C. Excess, Obsolete, and Unserviceable	14,375	(14,375)	0	0	NRV
D. Total	\$ 5,135,413	\$ (14,375)	\$ 5,121,038	\$ 470,506	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

Fluctuation and Abnormalities

Operating Materials and Supplies (OM&S), Net

There are no abnormalities to disclose for this reporting period.

The United States Marine Corps (USMC) reported an increase of \$4.7 billion, 988%, in 4th Quarter, FY 2006. This increase is attributed to reporting the Procurement of Ammunition, Navy and Marine Corps shared appropriation. Prior to 1st Quarter, FY 2006, shared appropriations were only reported at DON level; USMC did not prepare standalone statements.

Information Related to Operating Material and Supplies, Net

General Composition of Operating Materials and Supplies

The OM&S includes (1) ammunition and munitions that consists of spare and repair parts and conventional missiles, and (2) Appropriation Purchase Account (APA) Secondary Inventory that consists of spare and repair parts, fuel, clothing and textiles, medical and dental supplies.

Balances

In addition to the account balances, the Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property" requires disclosure of the amount of OM&S held for "Future Use." This information is not captured by current OM&S systems which were designed for material management rather than accounting purposes.

Decision Criteria for Identifying the Category to Which Operating Materials and Supplies Are Assigned

In order to standardize reporting of the categories Held for Use, Held for Repair, and Excess, Obsolete, Unserviceable, USMC implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated August 12, 2002. In addition, the condition code crosswalk was amended to include code "V" in the Excess, Obsolete, Unserviceable category in September 2002. The OM&S was reported as follows:

OM&S Category	C Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S, V

Valuation Method for OM&S

On July 6, 2001, USD(C) issued a memo requiring Moving Average Cost (MAC) as the approved valuation method for Inventory Held for Sale and Operating Materials and Supplies. "Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the valuation method as systems are enhanced or replaced." The USMC is participating in DoD Business Transformation Agency (BTA) efforts to bring legacy and target systems into compliance with the Business Enterprise Architecture (BEA). The BEA provides for a master plan that includes guidance on transition plan strategy concepts, considerations, processes, and principles. The MAC will be implemented as systems are enhanced or replaced. Until then, USMC continues to value OM&S Held for Use or Held for Repair using the standard purchase price. The USMC does not include a revaluation allowance for OM&S Held for Use or Held for Repair, but transfers items from these categories to Excess, Obsolete, and Unserviceable where the revaluation allowance is reported. Ammunition and Munitions are valued using the Latest Acquisition Cost.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

Generally, the value of USMC GFM and CAM in the hands of contractors is not included in OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.

Restrictions on Operating Materials and Supplies

There are no restrictions on the use of OM&S.

Other Disclosures

Ammunition and Munitions

Ammunition and Munitions are maintained and valued in the Marine Ammunition and Reporting System Two. The USMC anticipates migrating to solutions, as identified in BTA's transition plan in accordance with its current policy of adopting, implementing, and migrating from current legacy systems to approved systems.

APA Secondary Inventory

APA Secondary Inventory includes OM&S items such as, spare and repair parts, fuel, clothing and textiles, medical and dental supplies. These items are of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training, (b) high dollar value, (c) difficult to procure or produce, or (d) critical basic materials or components.

Sponsor Owned Material (SOM)

The SOM is defined as programmatic material required in support mission requirements for production, life cycle maintenance, and installation of systems and equipment consistent with the mission charter. Material usage may involve, but is not limited to: item fabrication, assembly, testing, manufacture, development, repair, or research and development.

Real-time Reutilization Asset Management (RRAM)

Material maintained and valued in RRAM is considered excess to the owner, but may not be excess to DON. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information.

Other Operating Materials & Supplies

Not Applicable to USMC General Fund.

Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2006					2005
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<i>(Amounts in thousands)</i>						
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 155,378	N/A	\$ 155,378	\$ 156,463
B. Buildings, Structures, and Facilities	S/L	20 Or 40	7,687,028	\$ (4,157,596)	3,529,432	3,604,002
C. Leasehold Improvements	S/L	lease term 2-5 Or	0	0	0	0
D. Software	S/L	10	0	0	0	0
E. General Equipment	S/L	5 or 10	175,980	(141,656)	34,324	46,376
F. Military Equipment	S/L	Various	6,474,100	(1,695,349)	4,778,751	3,158,867
G. Assets Under Capital Lease	S/L	lease term	0	0	0	0
H. Construction-in- Progress	N/A	N/A	0	N/A	0	0
I. Other			0	0	0	0
J. Total General PP&E			\$ 14,492,486	\$ (5,994,601)	\$ 8,497,885	\$ 6,965,708

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

In 4th Quarter, FY 2006, General PP&E increased by \$1.5 billion, 22%, primarily due to a \$1.6 billion increase in military equipment. The reason for the increase is that prior to FY 2006, military equipment was only reported by the Department of the Navy (DON) because USMC did not begin to prepare standalone financial statements until 1st Quarter, FY 2006.

Restrictions on General Property, Plant, and Equipment (General PP&E), Net

There are no restrictions on the use or convertibility of General PP&E to disclose.

Other Information Related to General PP&E, Net

Heritage Assets

The processes used to define items as having heritage significance vary between categories and type of assets being evaluated. Subject matter experts, including historians and curators, play a significant role in the definition process in addition to other criteria such as being listed on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to USMC collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Any additional information regarding heritage assets, multi-use heritage assets and stewardship land is reported in Required Supplementary Information.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value. The Secretary of the Navy Instruction 5755.1A, "Navy Museums," defines the scope of the Navy Museum program.

Stewardship Land

The USMC follows the Department of Defense (DoD) Financial Management Regulation (DoD FMR) definition of stewardship land to include public domain, land set aside, and donated land. Within the definition of stewardship land, land can be further categorized as improved, semi-improved or in the other category of land.

Military Equipment.

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards (SFFAS) No. 23, Eliminating the Category National Defense Property, Plant, and Equipment, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The DoD changed its method of valuing military equipment in 3rd Quarter, FY 2006. Previously, military equipment was valued using Bureau of Economic Analysis (BEA) data. Beginning with the 3rd Quarter, FY 2006, military equipment is valued based on internal records. This value of military equipment for the 4th Quarter, FY 2005 was restated from a zero balance to \$3.2 billion for comparative purposes using the new valuation method.

For 4th Quarter, FY 2006, military equipment is valued at \$4.8 billion based on internal records. Under the previously used BEA valuation methodology, this equipment would have been valued at \$7.9 billion.

Property in the Possession of Contractors.

The value of USMC General PP&E real property in the possession of contractors is included in the values reported above for the major asset classes of land and buildings, structures, and facilities. The value of General PP&E personal property, major asset classes of software and equipment does not include all of the General PP&E above DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per DoD FMR Volume 6B Chapter 10, USMC is not supplementing General PP&E information with values from the Defense Contract Management Agency's Contract Property Management System database. In accordance with an approved strategy with Office of Management and Budget, Government Accountability Office, and DoD Inspector General (DoDIG), DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with Federal GAAP.

Other Disclosures

Preponderant Use.

Per DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determining factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and

reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding source:

- The asset embodies a probable future benefit;
- The DoD component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;
- The transaction or event giving DoD component the right to, and control over, the benefit has already occurred; and
- The predominantly used assets, taken as a whole, are material to the component's financial statements.

Per the Office of the Under Secretary of Defense (Comptroller) memo of July 5, 2005, the Military Departments and DoD activities meeting the criteria of preponderant user are responsible for reconciliation of preponderant use property. As reconciliation's are completed and documented, USMC General Fund will make the adjustments to General PP&E.

Internal Use Software.

The USMC is in the process of establishing procedures to account for internal use software in accordance with DoD FMR, Volume 4, Chapter 6, "Plant, Property and Equipment," SFFAS No. 6, "Accounting for Property, Plant, and Equipment" and SFFAS No. 10, "Accounting for Internal Use Software." The USMC anticipates implementation of these procedures during FY 2007. The inventory of software utilized within USMC is being identified in ongoing Business Transformation Agency initiatives and will be leveraged by USMC to identify, validate, value, and account for internal use software assets. The USMC does not expect that internal use software is of a material amount

Assets Under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	79,677	76,953
D. Total Intragovernmental Liabilities	\$ 79,677	\$ 76,953
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 2,186	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	214,433	210,850
C. Environmental Liabilities	226,470	0
D. Other Liabilities	651,450	553,789
E. Total Nonfederal Liabilities	\$ 1,094,539	\$ 764,639
3. Total Liabilities Not Covered by Budgetary Resources	\$ 1,174,216	\$ 841,592
4. Total Liabilities Covered by Budgetary Resources	\$ 1,080,648	\$ 999,389
5. Total Liabilities	\$ 2,254,864	\$ 1,840,981

Other Information Related to Liabilities Not Covered by Budgetary Resources

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

The United States Marine Corps (USMC) reported an increase of \$332.6 million, 40%, in total liabilities not covered by budgetary resources. This was mostly attributable to nonfederal liabilities, \$226.5 million in environmental liabilities, \$97.7 million increase in other liabilities and \$2.19 million in accounts payable from cancelled appropriations.

Prior to FY 2006, environmental liabilities, accounts payable from canceled appropriations and other liabilities related to shared appropriations were reported only on DON financial statements because USMC did not prepare standalone financial statements until 1st Quarter, FY 2006.

In addition, nonfederal other liabilities grew due to a \$58.3 million increase in annual leave liability, because of an expansion of the category of reportable leave liability in FY 2006 to update annual leave liability at each quarter-end. Leave types that must be accrued are: annual leave restored annual leave, restored Base Realignment and Closure leave, compensatory leave, and credit hours earned. Also, contributing to this increase was \$39.4 million in nonfederal in excess/obsolete structures liabilities. Prior to FY 2006, nonfederal excess/obsolete liabilities were only on DON financial statements. During this

reporting period, 4th Quarter, FY 2006, DON implemented procedures to identify USMC's excess/obsolete structures liabilities.

Other Disclosures

Intragovernmental liabilities – other (not covered by budgetary resources) includes Federal Employees Compensation Act, \$50 million, and Unemployment Compensation, \$29.3 million

Nonfederal liabilities - other liabilities include civilian and military annual leave liability, \$612.1 thousand, and excess and obsolete structure liability, \$39.4 million.

Definitions

Liabilities covered by budgetary resources are those that are incurred by the reporting entity, which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.

Realized budgetary resources include:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior year obligations
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
- Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Conversely, liabilities not covered by budgetary resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act. When that future budgetary authority is provided, these respective liabilities will be recorded as covered by budgetary resources with an associated funded expense. To prevent overstatement on the Balance Sheet and Statement of Net Cost, the liabilities previously recorded as not covered by budgetary resources and the associated unfunded expenses are reversed.

Note 12. Accounts Payable

As of September 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<i>(Amounts in thousands)</i>				
1. Intragovernmental Payables	\$ 111,464	\$ N/A	\$ 111,464	\$ 168,814
2. Nonfederal Payables (to the Public)	520,609	0	520,609	505,949
3. Total	<u>\$ 632,073</u>	<u>\$ 0</u>	<u>\$ 632,073</u>	<u>\$ 674,763</u>

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Intragovernmental Payables

In 4th Quarter, FY 2006, the United States Marine Corps (USMC) reported a decrease of \$57.4 million, 34%, in intragovernmental payables.

The largest portion of the decrease, \$34.3 million, is directly attributable to a reduction in the intragovernmental payables owed the Navy Working Capital Fund (WCF). This reduction occurred in 1st Quarter, FY 2006. A change in business practice was implemented that allowed the Navy WCF to charge USMC appropriations directly when making contract payments. This change eliminated the need for Navy WCF to pay the contract and then collect from USMC via a reimbursable billing process.

Additionally, a reduction of \$12.7 million in intragovernmental payables owed the Defense Logistics Agency (DLA) Supply Management Fund occurred in 1st Quarter, FY 2006. This reduction occurred when DLA began automatically billing USMC through the interdepartmental billing process. Use of the interdepartmental billing process reduces the number of days necessary to liquidate the accounts payable.

Note 13. Debt

The Marine Corps General Fund has no Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<i>(Amounts in thousands)</i>				
1. Environmental Liabilities--Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0	\$ 0	\$ 0	\$ 0
2. Active Installations—Military Munitions Response Program (MMRP)	0	0	0	0
3. Formerly Used Defense Sites—IRP and BD/DR	0	0	0	0
4. Formerly Used Defense Sites--MMRP	0	0	0	0
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0	40,637	40,637	0
2. Environmental Closure Requirements	289	185,544	185,833	0
3. Environmental Response at Operational Ranges	0	0	0	0
4. Other	0	0	0	0
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0	0	0	0
2. Military Munitions Response Program	0	0	0	0
3. Environmental Corrective Action / Closure Requirements	0	0	0	0
4. Other	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0
5. Chemical Weapons Disposal Program	0	0	0	0
6. Other	0	0	0	0
2. Total Environmental Liabilities	\$ 289	\$ 226,181	\$ 226,470	\$ 0

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

In 4th Quarter, FY 2006, the United States Marine Corps (USMC) Total Environmental Liabilities reported increased \$226.5 million, 100%, because prior to FY 2006, NonDefense Environmental Restoration Program (NonDERP) liabilities were reported in the DON financial statements. First Quarter, FY 2006 was the first time USMC produced financial statements as a stand-alone entity.

Other Category Disclosure

The USMC does not have any “Other” environmental liabilities to report. As a subsidiary of DON, USMC only reports nonDERP environmental liabilities, all remaining environmental liabilities are reported at DON level only.

Current Liability

The USMC has identified \$289.5 thousand as current liabilities as required by the Department of Defense Financial Management Regulation, Volume 6B, Chapter 10

Environmental Liabilities Nonfederal**Other Accrued Environmental Liabilities – Active Installations**

In the 4th Quarter, FY 2006, USMC reported \$40.6 million in Environmental Corrective Action and \$185.5 million in Environmental Closure Requirements. This is attributed to USMC continuing efforts to complete their survey and estimations of USMC environmental liabilities of closure/decommissioning requirements for on-going operations.

Other Information Related to Environmental Liabilities**Applicable Laws and Regulations of Cleanup Requirements**

The following is a summary of significant laws that affect USMC’s conduct of environmental policy and regulations. The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984, was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for “cradle to grave” tracking of hazardous wastes. The RCRA addresses and requires permits for solid waste and hazardous waste closure and corrective action, including solid waste landfill and hazardous waste permitted storage facility closures. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks are also contained in the RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. The CERCLA was amended several times; one of the amendments was the Superfund Amendments and Reauthorization Act of 1986. This amendment established procedures to ensure that actual or threatened hazardous substance releases have proper responses. The procedures address reporting, investigating, remedy selection, and responsive provisions.

The purpose of the Clean Water Act (CWA) of 1977, Section 405 Disposal of Sewage Sludge, amended the Federal Water Pollution Control Act. The purpose of CWA is to restore and maintain the integrity of the nation’s waters. Facilities may dispose of sewage sludge on site from the operation of a treatment works. The CWA implementing regulations established closure and post closure requirements for sewage sludge disposal. To help protect the nation’s drinking water supply, including underground injections through a permitting scheme implemented by the states is the purpose of the Safe Drinking Water Act (SDWA) of 1974 (Well Head Protection Areas). The SDWA regulates the underground disposal of wastes in deep wells and establishes a program to protect public water supply wells. One requirement to protect public water supply wells addresses closure of Class I injection wells used for industrial hazardous, industrial nonhazardous and municipal (nonhazardous) waste.

Methodology Used to Estimate NonDERP Environmental Liabilities

The NonDERP environmental liability estimates are based on the following:

- Execution/payment amounts,
- Historical references (e.g., prior projects, investigations, monitoring),
- Current projects of comparable scope (similar sites),
- Estimates from vendors/contractors,
- Estimates from Military Construction Data Project form,
- Program Objectives Memorandum Guidebook, and
- Professional experience.

Description of the Types of Environmental Liabilities and Disposal Liabilities

Other Accrued Environmental Costs (NonDERP funds), Cost, Base Realignment and Closure (BRAC), and Environmental Disposal for Weapons systems Programs

The USMC defines NonDERP environmental sites/units as those sites/units associated with on-going operations such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retro fill, and/or disposal of the PCB (Polychlorinated Biphenyls) transformers, underground storage tank remedial investigation and closure. The USMC has reported nonDERP environmental liabilities for USMC installations totaled 225 projects and covered approximately 3,290 sites. The projects span the following nonDERP reporting categories: (1) closure for units or sites put into service prior September 30, 1997, (2) closure for units or sites put into service after September 30, 1997, and (3) corrective actions. There are no projects that fall into nonDERP environmental liability for “response at active ranges” and other reporting categories. For units or sites put into service after September 30, 1997, the number of years of service was used to allocate the liability for the current fiscal year and the accumulated liability to date.

Accrued Environmental Restoration (DERP Funded)

The DON centrally manages and executes (Defense Environmental Restoration Program) DERP and BRAC portion at DON level. Therefore, USMC does not report DERP or BRAC environmental liabilities. The USMC is in the process of evaluating if there are environmental liabilities associated with disposal of their weapons systems programs.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

NonDERP environmental liabilities can change in the future because of changes in laws/regulations and regulatory agencies agreements, and technology advances.

Description of the Level of Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The environmental liabilities for USMC are based on accounting estimates that require certain judgments and assumptions that we believe are reasonable based upon information available to us at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if laws/regulations change requiring a different closure method, or if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

Environmental Disclosures

Explanations

A. The DON administers the program and expenditures to remediate legacy wastes. The USMC does not have any amounts to disclose.

B. and C. The USMC reported an estimate for Other Environmental Liabilities (OEL). The USMC is in the process of determining what portion of the OEL relates to units put into service after October 1, 1997. Therefore, detailed data is not available at this time.

D. and E. The USMC does not have any changes in the environmental liability estimates due to changes in laws, regulations, and technology.

Note 15. Other Liabilities

As of September 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<i>(Amounts in thousands)</i>				
1. Intragovernmental				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	99,224	0	99,224	0
C. Disbursing Officer Cash	59,649	0	59,649	196,180
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	20,976	29,105	50,081	49,635
F. Other Liabilities	34,922	0	34,922	32,848
G. Total Intragovernmental Other Liabilities	\$ 214,771	\$ 29,105	\$ 243,876	\$ 278,663
<i>(Amounts in thousands)</i>				
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 173,846	\$ 0	\$ 173,846	\$ 122,916
B. Advances from Others	0	0	0	0
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0	0
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	5,282	34,110	39,392	0
(3) Conventional Munitions Disposal	0	0	0	0
G. Accrued Unfunded Annual Leave	608,058	0	608,058	553,789
H. Capital Lease Liability	0	0	0	0
I. Other Liabilities	7,950	108,766	116,716	0
J. Total Nonfederal Other Liabilities	\$ 795,136	\$ 142,876	\$ 938,012	\$ 676,705
3. Total Other Liabilities	\$ 1,009,907	\$ 171,981	\$ 1,181,888	\$ 955,368

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Intragovernmental other liabilities

The United States Marine Corps (USMC) reported a decrease of \$34.8 million, 12%, in total intragovernmental other liabilities.

Attributing to the decrease of intragovernmental other liabilities is a decrease of \$136.5 million to the disbursing officer cash account, due to the cash and other monetary assets decreasing. This is primarily attributable to a \$103 million decrease in foreign currency held in the Marine Corps Expeditionary Forces, Camp Lejeune, Limited Depositary Account (LDA) for use in Iraq. Upon completion of the disbursing officer's deployment that LDA was closed, the remaining amounts were withdrawn and subsequently deposited back into the U.S. Treasury during 2nd Quarter, FY 2006.

The decrease in the cash and other monetary assets is offset by an increase of \$99.2 million in deposit funds and suspense account liabilities due to the USMC portion of Treasury suspense accounts only being reported at DON level in prior years. The USMC prepared standalone financial statements for the first time in 1st Quarter, FY 2006 as a subsidiary of DON.

Intragovernmental other liabilities-others includes liabilities to Treasury, unemployment, and employee benefits.

Nonfederal other liabilities.

The United States Marine Corps (USMC) reported an increased \$261.2 million, (39%) in nonfederal other liabilities.

This increase is due to reporting \$116.7 million, 100%, increase in contingent liabilities for estimated future contract financing payments that will be paid to the contractor upon delivery and government acceptance of satisfactory product. This is the first time reporting due to newly implemented DoD procedures. In accordance with contract terms, specific rights to the contractor work vests with the government when a specific type of contract financing payments is made, thereby protect taxpayer's funds in the event of the contract nonperformance. These rights should not be misconstrued as the right of ownership. The Department of Defense (DoD) is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the DoD and the amount of potential future payments are estimated; DoD has recognized a contingent liability for estimated future payments, which are conditional pending delivery and government acceptance of a satisfactory product.

Also contributing to the increase in nonfederal other liabilities is a \$54.3 million increase in accrued unfunded annual leave. The accrued unfunded annual leave increase is attributable to unused leave for Marines who have been deployed and were unable to utilize their current leave. For 4th Quarter, FY 2006 nearly 22,000 of the 138,000 troops in Iraq were Marines. Additionally, a \$50.9 million increase in accrued funded payroll and benefits contributed to the increase in nonfederal liabilities. This increase in accrued funded payroll and benefits is due to correcting an overstated 3rd Quarter, FY 2005 amount. Prior to 3rd Quarter, FY 2005, USMC did not separate accrued funded payroll liabilities from accounts payable. However, at first reporting, 3rd Quarter, FY2005, USMC overstated the accrued funded payroll liabilities. The USMC had to reconcile the accounts payable general ledgers to the proper accrued funded payroll and benefits ledgers to correct the overstatement. The 4th Quarter, FY 2005 accrued funded payroll and benefits was understated due to problems from the manual reporting processes during the reconciliation of proprietary accounts payable.

The intragovernmental nonenvironmental disposal liabilities/excess/obsolete structures current liability posted an increase of \$39.4 million, as the proprietary general ledgers are being reconciled to account for these discrepancies with an estimated completion date prior to reporting 4th Quarter, FY 2006.

In response to the Department of Defense, Inspector General audit, "Financial Management: DoD Process for Reporting Contingent Legal Liabilities," the Department of the Navy (DON) completed a methodology during 4th Quarter, FY 2006, that provides an estimate for those cases that are probable and reasonably possible. The DON is testing the methodology with the objective to begin reporting 2nd Quarter, FY 2007.

Nonfederal other liabilities-other includes contract holdbacks, employer contributions and payroll taxes, and legal claims.

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

Legal Contingencies:

The United States Marine Corps (USMC), a sub-entity of the Department of the Navy (DON) is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. For USMC cases, DON has accrued contingent liabilities for legal actions where DON Office of General Counsel considers an adverse decision probable and the amount of the loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the judgment fund. Others may be payable from DON resources, either directly or by reimbursement to the Judgment Fund. In addition to DON statements, USMC records judgment fund liabilities in Note 15, "Other Liabilities" and Note 12, "Accounts Payable."

The Office of the Navy General Counsel conducted a review of litigation and claims threatened or asserted involving the USMC General Fund to which Office of General Counsel lawyers devoted substantial attention in the form of legal consultation or representation. This review utilizes a threshold of materiality of \$1.2 million applied to individual and aggregate claims, litigation, assessments, or contingencies arising out of a single event or a series of events.

The USMC has 2 cases that meet the existing materiality threshold. In response to the Department of Defense, Inspector General audit, "Financial Management: DoD process for Reporting Contingent Legal Liabilities," the DON completed a methodology during 4th Quarter, FY 2006 that provides an estimate for those cases that are probable and reasonable possible. The DON is testing the methodology with the objective to begin reporting 2nd Quarter FY 2007.

Other Commitments and Contingencies

The USMC contingent liabilities for obligations related to undelivered orders for open contracts citing canceled appropriations and for contractual arrangements are reported at the DON level. The DON and USMC have not fully implemented procedures to separate and report USMC's contingencies.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2006				2005
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
<i>(Amounts in thousands)</i>					
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Actuarial Benefits	\$ 0		\$ 0	\$ 0	\$ 0
2. Other Actuarial Benefits					
A. FECA	\$ 214,433		\$ 0	\$ 214,433	\$ 210,850
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. Total Other Actuarial Benefits	\$ 214,433		\$ 0	\$ 214,433	\$ 210,850
3. Other Federal Employment Benefits	\$ 0		\$ 0	\$ 0	\$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 214,433		\$ 0	\$ 214,433	\$ 210,850

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Other Information Related to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Military Retirement Pensions.

The portion of the military retirement benefits actuarial liability applicable to the United States Marine Corps (USMC) is reported on the financial statements of the Military Retirement Fund.

Military Retirement Health Benefits.

Health benefits are funded centrally at the Department of Defense (DoD) level. As such, the portion of the health benefits actuarial liability that is applicable to USMC is reported only on DoD Agency-wide Financial Statements.

Federal Employees Compensation Act (FECA).

Actuarial Cost Method Used and Assumptions: The USMC actuarial liability for workers' compensation benefits is developed by Department of Labor and provided to USMC at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10 year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Fiscal Year 2006

5.170% in Year 1

5.313% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2006 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2006	3.50%	4.00%
2007	3.13%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.013%
2010+	2.43%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2006 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2006 projection to the average pattern for the projections of the most recent three years.

The estimate was allocated between General Fund and Navy Working Capital Fund, Marine Corps based on the number of civilian employees taken from the Navy Budget Tracking System.

	Personnel
USMC General Fund	15,094
Navy Working Capital Fund, Marine Corps	1,909
Total	17,003

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue		
As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Intragovernmental Costs	\$ 5,829,850	\$ 6,671,583
2. Public Costs	14,666,789	13,489,258
3. Total Costs	\$ 20,496,639	\$ 20,160,841
4. Intragovernmental Earned Revenue	\$ (304,356)	\$ (410,525)
5. Public Earned Revenue	(110,342)	(656,467)
6. Total Earned Revenue	\$ (414,698)	\$ (1,066,992)
7. Net Cost of Operations	\$ 20,081,941	\$ 19,093,849

Fluctuation and Abnormalities

There are no abnormalities to disclose for this reporting period.

Total earned revenue decreased \$652.3 million, 61%, primarily attributable to a gradual decrease in the capitalization of land and buildings from FY 2005 to FY 2006 by a total of \$554.9 million. This change in assets affects earned revenue due to application of proper accounting practices. Assets are accounted for on the quarterly financial statements, but not accounted for in the accounting system. An expense vice an asset is recorded in the accounting system when the asset is received. Therefore, when the asset data is received from the asset accountability system for financial statement recording, an adjustment must be made to reduce expenses and increase assets. Since the expense cannot directly be decreased for the amount of the asset due to timing issues, the proper accounting requires an increase to the other gains account. This account is included in computation of revenue for the year, and also increases the results of operations. The results of operation are not actually affected by this since the amount is "negated" by the earlier expensing of the assets.

The United States Marine Corps (USMC) has partially implemented a direct interface from the property accountability system to the accounting system. Full implementation will eliminate the requirement to make these accounting adjustments.

Other Information

The USMC recorded a prior period adjustment due to a change in the methodology for reporting of military equipment. The FY 2005 restatement impacts the value of general property, plant, and

equipment and associated accumulated depreciation reported on the balance sheet. The Department of Defense has determined that developing the prior year value for the depreciation expense is cost-prohibitive, and thus has elected not to restate the Statement of Net Cost.

Intragovernmental costs and revenues are related to transactions made between two reporting entities within the federal government.

Public costs and revenues are exchange transactions made between USMC and a nonfederal entity.

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by USMC.

Currently, USMC is unable to identify its intragovernmental trading partners for costs. An initiative is currently underway to enhance the accounting system to identify trading partners on each obligating transaction. Revenue trading partners can be identified.

The USMC accounting system meets accounting standards and records transactions based on the US Standard General Ledger. The information presented is not based on budgetary obligations, disbursements, and collection transactions.

The USMC does not report any amounts for the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets (other than multi-use heritage assets), and the cost of acquiring stewardship land and any costs to prepare stewardship for its intended use.

Note 19. Disclosures Related to the Statement of Changes in Net Position

As of September 30	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<i>(Amounts in thousands)</i>				
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0	\$ 0	\$ 0	\$ 0
B. Errors and Omissions in Prior Year Accounting Reports	3,158,868	0	3,158,868	0
C. Total Prior Period Adjustments	\$ 3,158,868	\$ 0	\$ 3,158,868	\$ 0
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 23,303	\$ 0	\$ 24,235	\$ 0
B. Civilian Health	42,640	0	39,408	0
C. Civilian Life Insurance	141	0	129	0
D. Judgment Fund	1,157	0	151	0
E. IntraEntity	0	0	0	0
F. Total Imputed Financing	\$ 67,241	\$ 0	\$ 63,923	\$ 0

Errors and Omissions in Prior Year Accounting Reports

In the 4th Quarter, FY 2006, the United States Marine Corps (USMC) recorded a \$3.2 billion prior period adjustment due to a change in Department of Defense (DoD) methodology for reporting military equipment that resulted in a \$3.2 billion restatement for FY 2005. The FY 2005 restatement impacts the value of general property, plant, and equipment and associated accumulated depreciation reported on the Balance Sheet. The DoD has determined that developing the prior year value for the depreciation expense is cost-prohibitive, and thus has elected not to restate the Statement of Net Cost.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," DoD reported military equipment values in the financial statements beginning in FY 2003. As an interim measure, while DoD worked to develop its military equipment baseline from internal records, the military equipment values reported were based on information obtained from the Bureau of Economic Analysis (BEA).

Effective 3rd Quarter, FY 2006, DoD replaced the BEA estimation methodology with a valuation based on internal DoD records. During the process of establishing a baseline, we discovered that the BEA estimates had failed to consider disposals, thresholds, and construction in process. While an estimation methodology is acceptable per SFFAS 23, due to the nature of the BEA omissions, DoD considers the method previously used not compliant with Generally Accepted Accounting Principles (GAAP), and thus have treated the adjustment as correction of a material error.

Other Information

Imputed financing is the difference between the Government's cost of providing benefits to employees and contributions made by and for them. The amounts remitted to Office of Personnel Management by and for employees covered by Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits Program and Federal Employee Group Life Insurance Program do not fully cover the Government's cost to provide these benefits.

For the judgment fund, USMC recognizes liabilities and expenses when unfavorable litigation outcomes are probable and the amounts can be estimated. The Treasury provides the dollar amount of the imputed financing. The Treasury based the imputed financing on the amount the judgment fund is expected to pay for settlements

The difference of \$157.7 thousand between appropriations received on the Statement of Budgetary Resources (SBR) and appropriations received on the Statement of Change of Net Position (SOCNP) is the amount of US Standard General Ledger 4114, appropriated trust or special receipts, from USMC portion of the Wildlife Conservation on Military Reservations appropriation. This account is included on the appropriations received on the SBR, but not on the SOCNP.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2006	2005
<i>(Amounts in thousands)</i>		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 10,014,842	\$ 5,988,046
2. Available Borrowing and Contract Authority at the End of the Period	0	0

Other Information

United States Marine Corps (USMC) Report on Budget Execution accurately reflects \$19.5 billion direct obligations in category A, \$6.5 billion direct obligations in category B, and \$606.4 million reimbursable obligations in category B. The Statement of Budgetary Resources (SBR) reflects a total direct obligations amount of \$25.8 billion and \$0.8 billion in reimbursable obligations. Distribution of obligations between direct and reimbursable on the two reports is different, but total obligations are the same.

The discrepancy in amounts reported between direct and reimbursable obligations is due to a change in business process that occurred with the implementation of Defense Departmental Reporting System (DDRS)-Budgetary in 1st Quarter, FY 2006. Prior to that time the trial balances were derived from the Report on Budget Execution which did not distribute amounts between total direct and reimbursable obligations. Balances that could not be derived from other general ledger accounts were distributed based on management discretion. Beginning 1st Quarter, FY 2006 we began importing the general ledgers directly from the accounting system to DDRS Budgetary to DDRS-Audited Financial Statements (AFS). This allowed proper reimbursable general ledger amounts to flow from the accounting system to

the financial statements. Due to the previous distribution method, the beginning balances in DDRS-AFS were not divided correctly between direct and reimbursable obligations. These balances will be corrected in 1st Quarter, FY 2007.

Intraentity transactions have not been eliminated because this statement is presented as combined and combining.

There are no legal arrangements affecting the use of unobligated balances of budget authority. The USMC received no capital infusions during the reporting period.

Note 21. Disclosures Related to the Statement of Financing

Other Information

The following Statement of Financing (SOF) lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

- Obligations incurred
- Less: spending authority from offsetting collections and recoveries
- Obligations net of offsetting collections and recoveries
- Less: offsetting receipts
- Net obligations
- Undelivered orders
- Unfilled customer orders

The SOF line “Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations, Other” is primarily comprised of the transfer-in of general equipment from Navy Working Capital Fund, Marine Corps.

The SOF line “Components Requiring or Generating Resources in Future Period, Other” is comprised of unpaid leave that military personnel have earned that will be funded from future year’s appropriations. This line also includes the fiscal year-to-date change of nonenvironmental disposal liability.

The SOF line “Components not Requiring or Generating Resources, Other” is comprised of the year-to-date change in the back out of expenses for nonfederal refund receivables. The refund receivables and abnormal expenses do not require or generate resources in the current period. Additionally, it includes the bad debt expense for public accounts receivables.

Components requiring or generating resources in future periods are costs not funded in the period the costs are incurred. The expense and the corresponding liability are recognized in the current period but the budgetary resource will not be provided until a subsequent period. The amount of liabilities not covered by budgetary resources for 4th Quarter, FY 2006 is \$1.2 billion. In general, the changes in liabilities not covered by budgetary resources as shown on the Balance Sheet are reflected on the Statement of Financing. Differences are a result of custodial liabilities covered by current unobligated budgetary resources.

Note 22. Disclosures Related to the Statement of Custodial Activity

The Marine Corps General Fund has no disclosures related to the statement of custodial activity.

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)		MRF	MERHCF	Other Earmarked Funds	Eliminations	Total
ASSETS						
Fund balance with Treasury	\$	0	\$	0	\$	430
Investments		0		0		0
Accounts and Interest Receivable		0		0		0
Other Assets		0		0		0
Total Assets	\$	0	\$	0	\$	430
LIABILITIES and NET POSITION As of September 30						
Military Retirement Benefits and Other Employment Related						
Actuarial Liabilities	\$	0	\$	0	\$	0
Other Liabilities		0		47		47
Unexpended Appropriations		0		0		0
Cumulative Results of Operations		0		383		383
Total Liabilities and Net Position	\$	0	\$	0	\$	430
STATEMENT OF NET COST As of September 30						
Program Costs	\$	0	\$	0	\$	15
Less Earned Revenue		0		0		0
Net Program Costs	\$	0	\$	0	\$	15
Less Earned Revenues Not Attributable to Programs		0		0		0
Net Cost of Operations	\$	0	\$	0	\$	15
STATEMENT OF CHANGES IN NET POSITION As of September 30						
Net Position Beginning of the Period	\$	0	\$	0	\$	240
Net Cost of Operations		0		15		15
Other Nonexchange Revenue		0		158		158
Other Financing Sources		0		0		0
Change in Net Position	\$	0	\$	0	\$	143
Net Position End of Period	\$	0	\$	0	\$	383

Wildlife Conservation, Military Reservations, 16 USC 6706

This fund provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Proceeds from the sale of fishing and hunting permits are used for these programs at Navy and Marine Corps installations charging such user fees. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the State in which the installation is located. During this reporting period or subsequent to 4th Quarter, FY 2006, legislation regarding the purpose and use of the Wildlife Conservation, Military Reservation has not changed.

The amount of intragovernmental activity that is not reported on the note schedule is the difference between the amounts reported in the total column of the note schedule and the amounts reported on the face of the Balance Sheet and Statement of Changes in Net Position.

The Non Exchange Revenue in the amount of \$157.7 thousand for 4th Quarter, FY 2006 is from the proceeds of the sale of fishing and hunting permits.

No amount of the Earmarked Funds are removed or eliminated between other Marine Corps funds.

Note 24. Other Disclosures

The Marine Corps General Fund has no other disclosures.

Department of the Navy Subsidiary Financial Statements

**United States Marine Corps General Fund
Supporting Consolidating/Combining Statements**

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The United States Marine Corps, as a sub-entity of the Department of the Navy (DON), does not prepare Supporting/Consolidating Statements and therefore is included at the DON General Fund level.

Department of the Navy Subsidiary Financial Statements

**United States Marine Corps General Fund
Required Supplementary Stewardship Information**

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INVESTMENT IN RESEARCH AND DEVELOPMENT
Yearly Investment in Research and Development
For Fiscal Year 2006
(In Millions of Dollars)

(a)	(b)
Categories	FY06
1. Development	
Advanced Technology Development	36,188
Advanced Component Development and Prototypes	302,237
System Development and Demonstration	12,864
Research, Development, Test, and Evaluation	48,194
Management Support	
Operational Systems Development	283,725
Total	683,208

Narrative Statement

Investments in Research and Development

Fiscal Year (FY) 2006 is the first year that the United States Marine Corps (USMC) is reporting as a separate entity and therefore only is reporting one year for the Investment in Research and Development (R&D) schedule. The USMC investments are all Development; no Research Investments. The values included in this report are based on Development outlays (expenditures). Outlays are used because current USMC systems are unable to fully capture and summarize financial data in accordance with Federal Accounting Standards Advisory Board (FASAB) standards.

Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and production rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method.
2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in the phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components or complete weapon systems ready for operational and developmental testing and field use.
3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and development testing.
4. Research, Development, Test, and Evaluation (RDT&E) Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories,

operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development. These projects have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are three representative program examples for the Development category:

1. Plumbing the chemistry of Iraq Improvised Explosive Devices (IEDs)

The Office of Naval Research (ONR) is sponsoring a research project at the Massachusetts Institute of Technology (MIT) that is analyzing the molecular interaction of explosive materials. The goal of the three-year program is to study the physics and chemistry of IEDs and find techniques to detonate or short-circuit them before they cause harm.

Two objectives of this project are developing countermeasures and developing safer and more reliable materials for our own use to defend against the IEDs. The MIT researchers are conducting with research partners at Washington State University and Michigan Technological University. The funding is part of a military program called the Multidisciplinary University Research Initiative, which is designed to support technology advances and academic work in subjects representing exceptional opportunities for future military applications.

Composed of leftover Iraqi Army mortars, artillery shells, TNT (trinitrotoluene), and a variety of other explosives readily available in Iraq, IEDs pose perhaps the most troublesome problem for U.S. troops on the ground. The bombs, hidden along patrol and convoy routes, are relatively cheap to make, yet have become increasingly sophisticated, more powerful, and harder for the military to defend against. Increasingly skilled insurgents have disguised IEDs as rocks or tucked them inside roadside debris and dead animals.

Other research includes testing different ways that explosives can be stimulated or triggered – such as, through heat, radiation, or mechanics. The goal from this research is to use the knowledge to make IEDs on the side of the road more vulnerable to preemptive stimuli, thereby disabling the explosive devices before they cause harm to U.S. service members.

2. The New Breed of Soldier: Robots with Guns **Pentagon testing devices in effort to slash casualties**

Spurred by the risks from roadside bombs and terrorist ambushes, the military is aggressively seeking to replace troops with battlefield robots, including new versions armed with machine guns.

Although the Pentagon initially focused on aircrafts, such as the Predator drone, new ground and sea based robots are being developed and tested. For example:

- The Mobile Detection Assessment Response System is an unmanned vehicle intended to patrol around domestic bases.
- Self-driving convoy trucks. Some variants follow preplanned routes or the vehicle in front. The Defense Advanced Research Projects Agency has held a competition among advanced, satellite-guided versions that plan their own routes and maneuver around roadblocks.
- Robots that can enter a building, look for an enemy, and send back a map of the interior are being tested.

Already in Iraq and Afghanistan are hundreds of small robots to help bomb squads examine or disarm explosives from a safe distance. To better detect and stop IEDs, new sensors are being attached to those robots. The Pentagon is testing a new version of the Talon robot that carries a remote-control machine gun.

Much larger and more ambitious robot weapons are in testing, including a tank-like, 1,600-pound vehicle called the Gladiator, which can fire a variety of guns, tear gas or almost anything else that fits. It also has loudspeakers to “shout” instructions, such as those to calm a mob.

The goal now is helping troops in the field as quickly as possible. In the long term, the Gladiator and other robots will be transitional, as the military shifts to robotic technologies that will revolutionize warfare.

3. U.S. Military Selects Oshkosh Truck for Joint Light Tactical Vehicle Program

Oshkosh truck has been selected by the ONR to perform a conceptual design and mockup science and technology program for the Joint Light Tactical Vehicle (JLTV) program. The ONR, in concert with the U.S. Army and USMC, is supporting the JLTV program to develop a family of light tactical wheeled vehicles with superior survivability characteristics and enhanced payload.

Specifications defined by the U.S. Army and the USMC for the JLTV family of vehicles address capability gaps and increase force protection, survivability, fuel-efficiency, capacity, maneuverability and automotive safety, balanced with the total cost of ownership. Vehicles also must meet current weight and dimension requirements for transportability aboard ships and aircraft. The work that Oshkosh truck will perform involves a component technology review and the development of modeling and simulation programs, as well as conceptual designs of future technologies for the JLTV program.

NON-FEDERAL PHYSICAL PROPERTY

The USMC does not maintain any nonfederal physical property.

United States Marine Corps General Fund Required Supplementary Information

Supplementary Information



USMC General Fund Required Supplementary Information

**United States Marine Corps General Property, Plant, and Equipment
Real Property Deferred Annual Sustainment and Restoration Tables**

As of September 30, 2006

(\$ in Millions)

Annual Sustainment FY 2006				
	Required	Actual	Difference	
Marine Corps	561	524	37	
Building, Structures, and Utilities	561	524	37	

Annual Deferred Sustainment Trend				
	FY 2003	FY 2004	FY 2005	FY 2006
Marine Corps	-	24	30	37
Building, Structures, and Utilities	-	24	30	37

Restoration and Modernization Requirements				
	End FY 2005	End FY 2006	Change	
Marine Corps	-	256	256	
Building, Structures, and Utilities	-	256	256	

Narrative Statement:

Fiscal Year (FY) 2006 is the first year the United States Marine Corps (USMC) is reporting as a separate entity. Sustainment is defined as the maintenance and repair activities necessary to keep a typical facility in good working order over its service life. It includes regularly scheduled adjustments and inspections (such as for fire sprinkler heads and Heating Ventilation Air Conditioning (HVAC) systems), regulatory inspections (of elevators, bridges, and the like), emergency and routine preventive maintenance tasks, and major repair or replacement of facility components, such as roof replacement, refinishing wall surfaces, repairing and replacing electrical, heating, and cooling systems, and replacing tile and carpeting. In FY 2006, FSM Version 7.2 was used for programming and budgeting for facilities sustainment. Deferred amounts were calculated in accordance with the methodology provided by DoD Financial Management Regulation, Volume 6B, Chapter 12, "Required Supplementary Information."

Restoration and Modernization is not currently modeled. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, disaster, accident, or other causes. Modernization includes alteration of facilities solely to implement new or higher standards and regulatory changes, to accommodate new functions including base realignment and closure (BRAC), or to renew building components that typically last more than 50 years, such as foundations and structural members. Requirements listed on the table are actual expenditures for restoration and modernization by year. The program growth evident in the funding trend reflects the impact of Hurricanes Ivan and Katrina, and BRAC.

The USMC General Fund has no material amounts of deferred sustainment for the General Property, Plant, and Equipment categories of Personal Property, Heritage Assets, or Stewardship Land.

Military Equipment
Deferred Maintenance Amounts
As of September 30, 2006
(\$ in Thousands)

Major Type	Amount
Combat Vehicles	83,000
Total	\$83,000

Narrative Statement:**Combat Vehicles**

The combat vehicles category refers to deferred vehicle maintenance for the active and reserve Marine Corps assets. The combat vehicle category consists of weapons systems, such as the M1A1 Tank, the amphibious assault vehicle, the Hercules Recovery Vehicle, and the light armored vehicle. The total requirement is the planned quantity of combat vehicles that require depot level maintenance in a year as determined by program managers and the operating forces with requirements validated by a modeling process. The deferred maintenance is the difference between the validated requirements and funding received for that fiscal year.

HERITAGE ASSETS
For Fiscal Year Ended September 30, 2006

(A)	(B)	(C)	(D)	(E)	(F)
	Measurement Quantity	As of Sep 30, 2005	Additions	Deletions Sep 30, 2005	As of Sep 30, 2005
Museums	Each	6	-	-	6
Monuments & Memorials	Each	0	-	-	-
Cemeteries	Sites	0	-	-	-
Archeological Sites	Sites	0	-	-	-
Buildings and Structures	Each	0	-	-	-
Major Collections	Each	0	-	-	-

(See Supplemental Reporting)

Narrative Statement:

Fiscal Year 2006 is the first year that USMC is reporting as a separate entity. The USMC is required to report Heritage Assets in accordance with the following public laws and regulations:

- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archaeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies: Government Relations with Native American Tribal Governments Act of 1994

- 36 CFR 79 – Curation of Federally Owned and Administered Archaeological Collections
- 36 CFR 60.4 – National Register of Historic Places
- Federal Accounting Standards Advisory Board (FASAB) Standard 29, “Heritage Assets and Stewardship Land”
- Executive Order 13237 – Preserve America – of 2003
- Executive Order 13327 – Federal Real Property Asset Management – of 2004

Heritage Assets are items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant architectural characteristics. Monetary values are not required for Heritage Asset reporting; only physical units of measure are reported.

Process used to define assets as Heritage Assets. The processes used to define items as having heritage significance vary between categories and type of assets being evaluated. Subject matter experts, including historians and curators, play a significant role in the definition process in addition to other criteria, such as being listed on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Multi-Use Heritage Assets. Per DoD Financial Management Regulation (FMR), Volume 6B, “Form and Content of the Department of Defense Audited Financial Statements,” Multi-Use Heritage Assets are reported both as Heritage Assets on the Required Stewardship Supplementary Information (RSSI) and on the Balance Sheet as real property General Property, Plant and Equipment.

Information Pertaining to the Condition of USMC Heritage Assets. The methodology used to report the condition of the heritage assets was a combination of a visual assessment of the objects, historic value to USMC collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value. Secretary of the Navy Instruction 5755.1A, “Navy Museums,” defines the scope of the Navy Museum program.

Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of September 30, 2006:

Category	Measurement Quantity	As of Oct 1, 2005	Additions	Deletions	As of Sep 30, 2006
Archeological Artifacts	Cubic Feet	914	1	0	915
Archival	Linear Feet	24,980	746	0	25,726
Artwork	Item	8,725	221	0	8,946
Historical Artifacts	Item	52,007	1,425	0	53,432

STEWARDSHIP LAND
For Fiscal Year Ended September 30, 2006
(Acres in Thousands)

(a)	(b)
Land Use	As of Sep 30, 2006
1. Mission	680
2. Parks & Historic Sites	0
Totals	680

Narrative Statement

Per the DoD FMR, USMC Stewardship Land includes Public Domain, Land Set Aside, and Donated Land. Within the definition of Stewardship Land, land can be further categorized as Improved, Semi-Improved or Other.

United States Marine Corps General Fund

Other Accompanying Information

Maritime Corps General Fund and Accompanying Information



USMC General Fund Other Accompanying Information

Appropriations, Funds, and Accounts Included in the Principal Statements

Entity Accounts

General Accounts

17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps

Shared Appropriations (Appropriations from which US Marine Corps receives allocations)

17 0703	Family Housing, Navy and Marine Corps
17 1319	Research and Development, Test and Evaluation, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps

Shared Earmarked Funds

17X5095	Wildlife Conservation
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Non-Entity Accounts

17X6026	Pay of the Marine Corps, Deposit Fund Receipts
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Shared Non-Entity Accounts

17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds